



TECK CORPORATION LIMITED

1974



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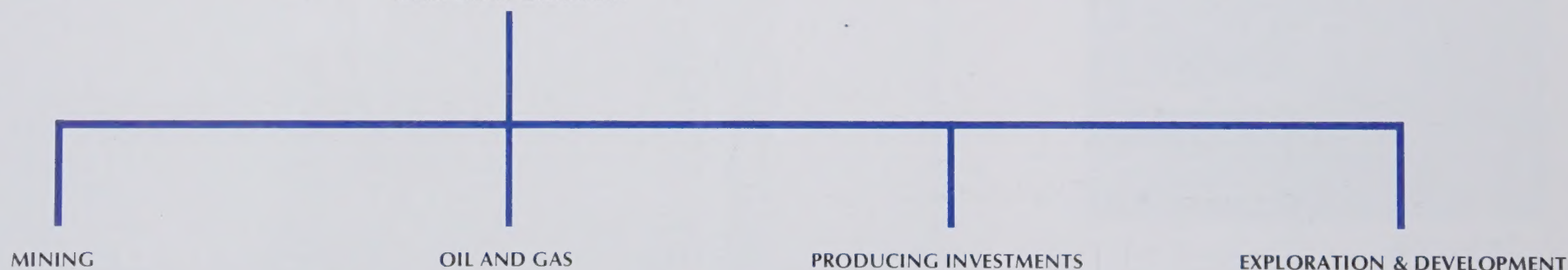
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ANNUAL REPORT 1974



– a diversified natural resources company, active from coast to coast on behalf of 13,000 shareholders.

TECK CORPORATION



Teck operates silver mines in British Columbia and Ontario and a gold mine in Quebec.

1974 sales \$12,783,000

1974 profit \$ 3,821,000



Teck produces oil and gas from fields in Saskatchewan, Alberta and Manitoba.

1974 sales \$4,259,000

1974 profit \$3,131,000



Teck holds 25% of Madeleine Mines Ltd. and 5% of Mattagami Lake Mines Ltd., eastern Canadian base metal producers.

1974 income \$2,594,000



Teck is active in exploration and is developing new mines in Newfoundland and Quebec.

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The annual meeting of Shareholders will be held in the Board Room, Hotel Vancouver, British Columbia on Wednesday, February 19, 1975 at 11:00 a.m. (Vancouver time).

HIGHLIGHTS

FINANCIAL

- Cash flow record \$6,278,000 or 92¢ per share.
- Ordinary earnings pre-equity \$4,844,000 or 71¢ per share.
- Ordinary earnings equity-accounted \$4,109,000 or 60¢ per share.

MINING

- Record profit of \$3,821,000.
- Two new mines under construction.

OIL & GAS

- Increased oil and gas reserves.
- New gas field being developed in Alberta.

TAXATION

- New taxes threaten industry's reproductive capacity.
- Teck's royalty and mining tax up 400% to \$2.9 million or 42¢ per share, before normal income taxes.

Report to the Shareholders

It is a pleasure to present the eleventh annual report of Teck Corporation. 1974 again saw record earnings, as well as the start of construction on two new mines under Teck management. Unfortunately, while our internal progress was satisfying, it is discouraging to note that it coincides with a time when external forces, including revolutionary tax policies and general economic uncertainty, threaten the health of the resources industry as a whole.

Net ordinary earnings from operations and investments increased from \$2,962,000 (43¢ per share) to \$4,844,000 or 71¢ per share, expressed on a basis comparable with previous years. Beginning this year the company is also reporting earnings on an equity accounting basis, showing Teck's equity in the gains or losses of effectively controlled companies. Ordinary earnings after equity accounting were \$4,109,000 or 60¢ per share. Cash flow after exploration, administration and interest expenses was also at an all time high of \$6,278,000 or 92¢ per share, compared with \$3,731,000 or 55¢ per share last year.

The improved profit performance was primarily a result of better metal prices, both for our own operations and for our major operating investments. This was timely after several years of low metal prices.

Our ability to begin construction of two new mines was the result of extensive exploration and development efforts in earlier years. This included four years of drilling, underground examination, pilot plant work, and marketing studies on the St. Honoré columbia project, and a successful exploration programme at Newfoundland Zinc last year.

This year's advanced exploration and development efforts were concentrated on engineering and pilot plant studies for the Afton project. Given suitable conditions, this is expected to become an important producer of copper. Plans were also underway to expand our natural

gas production through development of gas reserves in the Bantry area of Alberta. Installation of the initial gathering lines and compressors is in progress, and it is anticipated that this gas should start reaching market early in 1975.

The outlook for the next fiscal year is for somewhat lower income from existing producing units. Combined oil and gas production should not change materially, but the pricing structure is difficult to forecast. Gold prices are strong but are also difficult to predict. The price of silver is expected to be somewhat lower and that of copper, which affects our investment income, is also expected to be substantially lower than the average for 1974. Initial production from Newfoundland Zinc could offset this to some extent late in the fiscal year, and should make a full year's contribution to earnings in the following period.

The outlook for the natural resources industry as a whole is still unclear. In the last year, it has been subjected to major new tax onslaughts from several fronts, despite the fact that the 1972 tax increases had not yet fully worked their way into the system. The new taxes began at the provincial level, combining a desire for greater revenue and for greater bureaucratic control. The Federal government found it necessary to retaliate and, by disallowing deductibility of royalties for tax purposes, it subjected producers to double taxation.

The "tax structure" is still evolving, and it is probable that some of its worst aspects will be eliminated in due course. It may take years, however, to correct the intangible damage that has been done, particularly in the area of confidence. Miners and oilmen are accustomed to dealing with the uncertainty of geology and economic conditions. These they can handle professionally. What is difficult to contend with is the knowledge that governments are now prone to change the rules after all the normal risks have been taken and overcome. In our opinion such retroactive legislation is both improper and short-sighted.

The contribution both industries are making now is the result of exploration and construction decisions made



a decade ago. The contribution they will make in the future depends upon the extent to which people today are willing to drill ever-riskier petroleum and mineral prospects and construct ever-costlier production facilities. Men will only do this if they have confidence in the fairness and stability of the tax and other legislative ground rules. At this stage, that confidence has been eroded badly, and Canadians should insist that their elected representatives begin promptly to rebuild it.

On behalf of the Board,

President

Vancouver, B.C.
January 10, 1975



*The Right Honourable
D. Roland Michener
Chairman of the Board*

DIRECTORS

Rt. Hon. D.R. Michener, P.C., Q.C., Toronto, Counsel.
Sir Michael Butler, Bt., Q.C., Vancouver, Partner, Farris, Vaughan, Wills & Murphy.
R.E. Hallbauer, B.A.Sc., P.Eng., Vancouver, President, Brameda Resources Limited.
D.L. Hiebert, C.A., B.Comm., Vancouver, Vice President, Teck Corporation Limited.
G.L. Jennison, Toronto, Director, Canada Permanent Mortgage Corporation.
A.R. Keevil, M.A., P.Geol., Calgary, Vice President, Teck Corporation Limited.
N.B. Keevil, M.Sc., Ph.D., Vancouver, President, Copperfields Mining Corporation.
N.B. Keevil Jr., M.Sc., Ph.D., P.Eng., Vancouver, President Afton Mines Ltd.
J.D. Leishman, M.D., FRCS(c), Vancouver, Director, Mutual Life Assurance Company.
C.E. Michener, M.Sc., Ph.D., Toronto, Consulting Geologist.
J.H. Westell, Islington, Vice President, Teck Mining Group Limited.
R.J. Wright, Toronto, Partner, Lang, Michener, Cranston, Farquharson & Wright.

OFFICERS

Rt. Hon. D.R. Michener, Chairman of the Board
Norman B. Keevil, President
Norman B. Keevil Jr., Executive Vice President
Robert E. Hallbauer, Vice President
Alan R. Keevil, Vice President
James H. Westell, Vice President
Donald L. Hiebert, Vice President
G. Robert Shipley, Controller
William H. Maedel, Secretary
Norman B. Rudden, Treasurer
John D. Munroe, Assistant Secretary
Walter H. Bowles, Assistant Secretary

MINE MANAGERS

A.W. Foley, Lamaque Mining Company Limited, Val d'Or, Quebec
W.C. Summers, Silverfields Mining Division, Cobalt, Ontario
B.E. Goetting, Beaverdell Mining Division, Kelowna, British Columbia
Raymond Raby, projet Niobec, St. Honoré, Quebec
A.K. Campbell, Newfoundland Zinc project, Daniel's Harbour, Newfoundland

EXECUTIVE OFFICE

1199 West Hastings Street, Vancouver, British Columbia V6E 2K5

EASTERN DIVISION

Suite 4900, Box 49, Toronto-Dominion Centre, Toronto, Ontario M5K 1E8

PETROLEUM DIVISION

1530 Aquitaine Tower, 450 - 5th Avenue S.W., Calgary, Alberta T2P 0M2

TRANSFER AGENTS

Guaranty Trust Company of Canada, Toronto, Montreal, Winnipeg and Vancouver
National State Bank of Newark, Newark, New Jersey, U.S.A.

AUDITORS

Coopers & Lybrand, Vancouver, British Columbia

MINING



	1974	1973
Sales Revenue	\$12,783,000	\$9,694,000
Operating Profit	\$ 3,821,000	\$2,556,000

OPERATIONS

Teck produces gold and silver, with minor amounts of by-product zinc and cadmium, from three mines: the Lamaque gold mine at Val D'Or, Quebec, the Silverfields silver mine near Cobalt, Ontario, and the Beaverdell silver mine near Kelowna, British Columbia. Teck employs over 500 people directly at these mines, which contribute to the employment of many other Canadians through the purchase of supplies and services.

GOLD

The *Lamaque* Mine has produced over 4,000,000 ounces of gold since it began production 39 years ago. Output in 1974 was 55,850 ounces from milling of 527,040 tons of ore with an average grade of 0.113 ounces per ton. Comparable figures for the previous year are 63,117 ounces from 598,120 tons at 0.113 ounces of gold per ton.

Sales revenue was \$7,894,000 and net income \$1,554,000 up from \$5,659,000 and \$836,000 in 1973. The average price of gold increased from \$90 to \$141 per ounce.

Cost escalation has been a serious problem for the mining industry in the past year. The cost of materials and supplies has increased significantly. With higher gold prices, it is finally possible to be competitive with base metal wage rates but, while this has improved the availability of skilled labour, it has also added materially to the production cost per ounce. Expenditures on mine explo-

ration, curtailed in recent years because of the cost-price squeeze in the gold industry, have been resumed. The net effect was an increase in the operating cost from \$7.83 to \$11.82 per ton and from \$74 to \$112 per ounce over the year.

Because only limited exploration was possible over the past few years, ore reserves have declined to 470,000 tons grading 0.15 ounces per ton. Exploration near the northern edge of the property produced some encouragement this year. Three new high grade veins have now been outlined at the 1,500 foot level, 2,000 feet north of the main shaft, and mining in this area is proceeding at the rate of about 3,000 tons per month. Surface drilling has encountered similar veins at shallower levels, and considerable emphasis is being placed on exploration between this area and the old No. 2 mine, closed in 1956.

Lamaque's mill presently contains excess capacity, and consideration is being given to milling gold ore from other properties in the area, either by participating in development of new mines, or on a custom basis. The company is also exploring a new gold prospect of its own several miles from the original mine.

SILVER

Silverfields' tenth year again saw record production despite a two-week, mid-contract work stoppage in May. Silver production was down from 1,368,000 to 815,000 ounces, but sales revenue increased from \$2,871,000 to \$3,233,000, and net operating income was up from \$1,376,000 to \$1,611,000. The average price received for silver rose from \$2.24 to \$3.75 per ounce.

Indicated reserves at year end were 324,700 tons grading 11.1 ounces per ton, compared with 364,200 tons grading 13.0 ounces last year. Broken reserves were 159,400 tons at a grade of 10.7 ounces per ton.

Silverfields' output consists of a flotation concentrate containing about 40% of the silver produced, and a table concentrate, which is partially processed to bullion and sold separately. Because the flotation portion contains elements which are deleterious to some pyrometallurgical smelters, research continued into hydrometallurgical alternatives. It is likely that such a facility will be put into operation in the Cobalt area this year, either by Silverfields or by a custom processing company.

Beaverdell has produced 17,850,000 ounces of silver since it began production in 1936. However, the nature of the mine is such that it is difficult to outline ore reserves much ahead of mining, and a considerable proportion of the cost of production is in exploratory and development mining. With improved silver prices, it has been possible to mine lower grade areas in an attempt to extend mine life. The average grade of ore mined was 18.2 ounces of silver per ton in 1972, 14.5 ounces in 1973 and 11.2 ounces of silver this year. Despite this decline in grade, sales revenue was up from \$1,164,000 to \$1,656,000 and operating earnings increased from \$344,000 in 1973 to \$656,000 this year. This includes three months' production stockpiled because of the strike at the Trail smelter and recorded at a price of \$3.73 per ounce. This strike has now been settled and shipments have been resumed.

Because *Beaverdell* is on Crown-Granted Mineral Claims it is not subject to the Mineral Royalties Act passed this year by the British Columbia government, but falls under the Mineral Land Tax Act. Indications are that the government intends to increase the tax rate next year so that the tax will equal that which would have been paid under the Royalties Act.

The effect of such taxes on a small mine like *Beaverdell* is destructive. With improved silver prices permitting inclusion of lower grade mineralization, *Beaverdell*, for the first time in its history, was able to block out sufficient

MINING



ore reserves to foresee a mine life of five years in the future. Under the Royalties Act, though, it is necessary to pay a tax on the gross value of silver produced, regardless of operating cost. The effect is to eliminate the lower grade portion of these reserves.

For example, even if the price of silver reached \$6.00 per ounce, the *off the top* cost of the royalties and super-royalties would eliminate 100,000 tons or almost three years worth of this ore, containing 550,000 ounces of silver. This would mean the elimination of over \$3,000,000 in revenue, by far the largest proportion of which would have been used to pay wages and purchase supplies.

Representations are being made to the government to modify this situation, which clearly seems to be more severe than intended.

NEW MINES IN CONSTRUCTION

Teck began construction of two new mines during 1974, a zinc project in Newfoundland and a columbium project in Quebec.

ZINC

In June, plans were announced for a new zinc mine near Daniel's Harbour on the northwest coast of Newfoundland. Construction began immediately, and the mine is expected to be in production towards the end of 1975.

Teck holds a 63.4% interest in the project and is the operator.

The mine and mill will have a rated capacity of 1,500 tons per day, capable of producing concentrate containing 80,000,000 pounds per year of zinc metal. The cost to bring it into production, exclusive of prior exploration and development expenses, is expected to be approximately \$18,000,000, with the funds being provided by a Canadian bank. The mine will create 140 jobs directly and, through the multiplier effect on suppliers and service organizations, contribute to substantial additional employment in Newfoundland and elsewhere in Canada.

Mining will be principally by trackless methods with access provided by a decline, although some ore will be available for open pit mining. Milling will be by conventional flotation methods and is expected to produce a concentrate grading more than 62% zinc with a recovery of 95%. The concentrate will be trucked 45 miles to Hawkes Bay, a port which is generally free of ice 8 months of the year, and shipped from there to zinc refineries. Teck's 63.4% share of the output will be treated in Canada.

Mineable ore reserves outlined to date are 4,400,000 tons grading 8.8% zinc. Geological potential for expansion is considered to be good.

Teck's equity in the project includes 47.6% held as a direct working interest and 15.8% held indirectly through Newfoundland Zinc Mines Ltd., a Teck subsidiary which has a 25% carried interest in the mine.

MINING



COLUMBIUM

Construction of a new columbium mine near Chicoutimi, Quebec began in the spring of 1974. The project is being developed by Niobec Inc., a new company in which Soquem — a Quebec Crown Corporation — holds 50%, Copperfields Mining Corporation 25% and Teck 25%. Through its shareholding in Copperfields, Teck's direct and indirect interest is 32% and it is providing operating management for the venture.

The mine is being developed by means of a 950 foot shaft, with a primary crusher to be established at the 750 foot level. Main haulage will be on the 600 foot level, with mining to be by blasthole stoping methods. Milling will involve several stages of flotation, followed by acid leaching to clean the columbium-bearing pyrochlore concentrate. Concentrate will be sold to customers in Europe, Japan and North America under contracts which cover 95% of the planned output of 5,500,000 pounds per year of contained columbium oxide.

The construction and development cost is now expected to be approximately \$18,400,000, with completion in early 1976. Financing includes \$8,900,000 in project loans from two Canadian banks, \$3,000,000 from a customer, \$1,500,000 from a Federal Government grant, and the balance from the sponsors.

Mineable reserves, outlined by definition drilling for the purpose of immediate mine planning, have been established at 8,500,000 tons grading 0.72% columbium oxide. Geological reserves indicated by more widely spaced drilling are considerably higher.

OTHER PROJECTS

Teck has an interest in two copper projects on which feasibility studies were in progress during the year; the Afton deposit in British Columbia and Silver Standard's Minto copper deposit in the Yukon Territory.

COPPER

The *Afton* project involves a planned open pit copper mine several miles west of Kamloops. Mill capacity is to be 7,000 tons per day, with annual output to be 50,000,000 pounds of copper. Open pit ore reserves are 34 million tons grading 1.0% copper with a waste to ore ratio of 4.2 to one.

Design of the mining and milling plants and establishment of technical feasibility were completed during the year. Investigations into the possibility of further processing of the production within Canada were initiated, and these are continuing.

Teck and its 49% affiliate, Iso Mines, have now advised Afton Mines Ltd. of their intention to place the deposit into production as soon as reasonably and economically feasible. Financing and marketing negotiations are in progress and applications are being made to various government agencies for the necessary permits. It is not possible at this stage to establish a firm date for the start of construction and, since costs are escalating monthly, no definitive capital cost estimate will be made at this time.

Teck held 870,300 shares of Afton Mines Ltd. at the fiscal year end, and has since received, under an exploration contract, 736,548 additional shares for a total of 1,606,848 shares or 43% of that company. Including Teck's equity in Iso Mines Ltd., its net direct and indirect equity in Afton is now 55%.

Teck also has an indirect interest in the *Minto* copper project in the Yukon Territory. This orebody, discovered last year by Silver Standard (Teck 20%) and Asarco, appears capable of supporting a medium-sized open pit operation. Reserves in the discovery zone are estimated to be approximately 4,500,000 tons of 1.8% copper. The deposit extends onto adjoining claims held by another group of companies, and additional reserves are being outlined on that property. Work this year consisted of definition drilling on the main zone, exploratory drilling of other copper occurrences in the vicinity, and conceptual mine planning.

Silver Standard and Asarco each have a 50% interest in the project, with Asarco having the right to increase its interest to 60% if it provides all of the development financing.

MISCELLANEOUS

Teck has interests in a number of other mineral projects in various stages of study. Many of these are held through shareholdings in affiliated companies for which Teck is providing financial and management assistance.



In coal, Brameda Resources (Teck 47%) is the discoverer and sponsor of the *Sukunka* coal project near Chetwynd, British Columbia. Over 65,000,000 tons of medium volatile, low sulphur coking coal of excellent quality have been outlined by drilling, followed by trial mining programmes to test underground operating conditions. The project is under farmout to another company which may finance it to production and acquire a 60% equity, with Brameda retaining 40%. Brameda and Teck were also exploring other coal prospects in the area, although no work was done this year because of delays in renewal of the exploration licences.

Teck has interests in several large tonnage, low grade copper-molybdenum deposits through shareholdings in affiliated companies. The *Highmont* and *Schaft Creek* projects are in British Columbia and their near term viability is uncertain because of recent Federal and Provincial moves in mining taxation. The *Casino* project in the Yukon does not have these tax problems, but suffers from the difficulty in establishing precise capital and operating costs for a low grade mine in such a remote area. Each of these deposits is expected to become a viable mine in due course but, in common with other similar large copper deposits with high costs and low profit margins, the timing will depend upon the return of an economic climate in which long range planning can be undertaken with confidence.

The *Magusi zinc-copper* deposit, discovered by affiliated Iso Mines and Copperfields Mining Corporation in 1972, was sold to Noranda Mines after the fiscal year end. The property is close to other Noranda operations and had a relatively low priority for development within the Teck Group. Copperfields and Iso received a cash payment and retained a carried interest in the property.

Teck has a small share interest in *Northair Mines Ltd.*, and a first refusal on financing of its gold prospect north of Squamish, British Columbia.

EXPLORATION

An extensive geological mapping and geochemical programme was carried out in northwestern Newfoundland, in the vicinity of the Daniel's Harbour zinc deposit. Diamond drilling to follow up the results will be carried out continuously over the winter, and further work is planned for the next field season.

Teck has a 25% interest in a syndicate carrying out a long-term programme to explore for base metals in Precambrian greenstone belts in eastern Canada. The primary exploration technique is airborne geophysical surveys, followed by a variety of secondary surveys on the ground and drilling.

Exploration was carried out on a number of other properties in New Brunswick, Quebec, Ontario, the Yukon and the United States during the year. Follow-up is planned on a gold prospect in Quebec, a base metal prospect in New Brunswick and in the Yukon during the next year.

Teck also participates in exploration through sponsorship of *Silver Standard Mines Ltd.* In addition to development work on the Minto copper project mentioned earlier, Silver Standard conducted exploration on a gold prospect in Nevada and on a number of properties elsewhere in the United States, the Yukon, the Northwest Territories and British Columbia.

As a result of *geothermal steam* exploration carried out in the 1960's, Teck holds an 8¼% royalty interest in a 400 acre property at the Geysers, California. The demand

for new energy sources in the United States has created renewed interest in geothermal power, particularly in the Geysers area which has been in production since 1960. One well drilled on the Teck property has encountered steam in potentially commercial quantities, and further drilling is anticipated.

The time when it will be economic to mine metals from the *ocean floor* is getting closer, although there are still technological problems and questions of international law to be resolved. Teck is participating in a syndicate testing dredging techniques for recovery of deep sea manganese nodules containing nickel, cobalt and copper, and is also carrying out research on other possible metal sources in the oceans.



	1974	1973
Value Produced	\$10,275,000	\$ 4,467,000
Royalties	2,516,000	437,000
Export Tax (estimated).....	3,500,000	—
Net Revenue	4,259,000	4,030,000
Operating Profit	3,131,000	2,935,000

OPERATIONS

Teck produced 1,148,890 barrels of oil and 649,504 mcf of natural gas in 1974, compared with 1,240,418 barrels and 730,303 mcf the previous year. Average daily production, converting gas to oil at 10 mcf per barrel for convenience was 3,348 barrels.

The value of oil and gas produced increased substantially with higher world prices for energy materials. As indicated by the chart in last year's annual report, the price of oil had been held too low for too long. An increase was overdue, both to adjust for the declining value of the dollar and to provide funds for ever-riskier exploration to establish new reserves.

Most of the increased value went for higher provincial royalties and the new Federal Export Tax, the latter estimated to have amounted to over \$3,500,000. Provincial royalties increased from \$437,000 to \$2,516,000. The net revenue to Teck remained essentially constant at \$4,259,000.

Petroleum reserves at the year end were calculated by Reid, Crowther and Partners Ltd. at 11,900,000 barrels of net recoverable crude oil and 87,308,000 mcf of net recoverable gas, compared with 11,465,000 barrels of oil and 60,640,000 mcf of gas last year. These estimates of reserves are classified as proven and probable, with the exception of 27,000,000 mcf of gas reserves not yet committed to market.

NEW GAS PRODUCTION

Over the past several years Teck and partners have been exploring for natural gas in the Bantry — Tide Lake areas southeast of Calgary. Teck's net recoverable gas reserves in this area are now estimated to be 61.8 billion cubic feet.

Development plans have been slowed somewhat by the uncertain tax and royalty situation, but negotiations to form two producing units are now in progress. Teck's share of the capital cost of additional wells, gathering lines and compression equipment for the first unit is expected to be approximately \$700,000, increasing our natural gas production by about 1.3 billion cubic feet per year. Construction should be completed over the next two years, with some increase in gas sales occurring in fiscal 1975. Under the recent Alberta regulations, this is treated as "new gas" for the purpose of establishing the royalty rate.

DEVELOPMENT DRILLING

Teck participated directly in 11 development wells during the year; 3 in Alberta and 8 in Saskatchewan. Two of the 3 Alberta wells were completed as gas wells in the Pelican-Athabasca area. All of the Saskatchewan wells were completed as oil wells.

In addition, 3 development wells were drilled at no cost to Teck on farmout lands. One near Lanaway, Alberta was completed as a gas well, with 2 oil wells being completed in the Steelman field in Saskatchewan.

OIL AND GAS



EXPLORATION

In exploratory drilling, Teck participated directly in 31 wells, including 27 in Alberta, 1 in Saskatchewan, 1 in British Columbia and 2 in North Dakota. Of the Alberta drilling, 14 resulted in Pelican-Athabasca gas wells, 1 a gas well near Paddle River, and 12 were dry holes. Another well drilled just after the year end resulted in a gas discovery at Retlaw, Alberta. This well also encountered oil in a separate Lower Cretaceous zone, but additional drilling will be required to see if the oil pool is of commercial size.

The exploratory well near Ratcliffe, Saskatchewan was completed as an oil well, while the British Columbia test was dry and abandoned. One of the two North Dakota tests resulted in an oil well which has been capped pending further development in the area. A third North Dakota well drilled on a separate prospect just after the fiscal year end resulted in a flowing oil discovery.

Teck has an interest in a gas well completed in November, 1974 in the Rigel area, 35 miles north of Fort St. John, British Columbia. The well encountered 50' of sand in the Buick Creek Formation, recording a stabilized flow rate of 5.5 million cubic feet per day on drill stem test. Teck has an 18.8% interest in the spacing unit drilled and has earned a 9.4% interest in a further 3,000 acres as a result of this test. The group has also purchased an additional 1400 acres at a Provincial land sale following the discovery.

Three additional exploratory wells were drilled on or near Teck lands as a result of farmout arrangements. One in British Columbia was dry and, of two in Alberta, one in the Lanaway area was capped as an oil well.

An 800,000 acre portion of Teck's (50%) onshore holdings in England's Severn Basin was farmed out to Shell (U.K.) Limited during the year. Shell carried out additional seismic surveys during the summer and is expected to begin drilling an exploratory well before June, 1975. Upon drilling 3 wells, Shell will earn a 50% working interest in the land block. Teck also holds a 33% interest in two other licences in the area which are not subject to the farmout.

Offshore in England, Teck holds a 16.3% interest in a 64,000 acre production licence in the *Celtic Basin*. Seismic evidence indicates the probability of a structure under the block, but plans are to assemble further data before reaching a drilling decision.

Teck has a 10% interest in a multi-well programme on 185,000 acres in *North Dakota*. Thirteen wells will be drilled in 1975 following the two put down in 1974.

A total of \$1,900,000 has now been invested by farmee companies in exploratory geophysical and geological operations on Teck's (25%) *Mackenzie Delta* holdings. One of these was expected to commit to a well this year, but was given a further year to June, 1975 in order to conduct additional seismic surveys.

Teck has a 20% interest in 3,251,000 acres and 33% in 234,000 acres in northern *Hudson Bay*. All of this is under a Federal Government exploration moratorium pending completion of ecological studies, and an application for 33% of a further 2,000,000 acre permit is still pending.

PRODUCTION DATA

OIL (barrels)	1974	1973	1972	1971	1970
Steelman, Sask.	936,246	1,023,836	1,164,584	1,245,193	1,274,693
Cullen, Sask.	66,112	58,671	66,829	71,732	71,226
Medicine River, Alta.	47,700	56,582	35,820	37,873	38,532
Virden, Man.	41,120	39,722	31,439	35,262	44,083
Miscellaneous	57,712	61,607	54,093	59,747	44,934
	<u>1,148,890</u>	<u>1,240,418</u>	<u>1,352,765</u>	<u>1,449,807</u>	<u>1,473,468</u>
Illinois, U.S.A.	—	—	—	286,564	418,450
NATURAL GAS (mcf)					
West Provost, Alta.	494,747	537,187	549,840	511,080	408,319
Medicine River, Alta.	72,917	137,428	38,014	—	—
Huxley, Alta.	81,840	55,688	16,182	—	—
	<u>649,504</u>	<u>730,303</u>	<u>604,036</u>	<u>511,080</u>	<u>408,319</u>
LAMAQUE (gold)					
Tons milled	527,040	598,120	768,820	777,920	787,390
Grade (oz. gold)	0.113	0.113	0.114	0.114	0.131
Recovery (%)	93.5	93.4	93.3	93.3	93.2
Production (oz. gold)	55,850	63,117	81,815	96,197	92,917
Operating cost per ton	\$11.82	\$7.83	\$5.26	\$4.95	\$4.99
SILVERFIELDS (silver)					
Tons milled	91,753	96,016	75,607	76,123	80,725
Grade (oz. silver)	9.4	14.7	18.2	14.9	13.2
Recovery (%)	96.4	96.7	96.8	96.7	96.6
Production (oz. silver)	815,319	1,367,756	1,328,510	1,112,052	1,108,029
Operating cost per ton	\$13.57	\$12.29	\$13.06	\$14.10	\$13.10
BEAVERDELL (silver)					
Tons milled	37,434	37,316	37,092	18,454	14,857
Grade (oz. silver)	11.2	14.5	18.2	14.1	14.0
Recovery (%)	90.9	91.0	91.8	91.2	91.0
Production (oz. silver)	384,737	497,201	676,363	289,958	189,853
Operating cost per ton	\$23.95	\$20.26	\$19.40	\$20.97	\$42.38

	1974	1973
Sales revenue	\$19,558,000	\$14,161,000
Royalties and Mining Taxes	2,875,000	718,000
Net Sales revenue	17,042,000	13,724,000
Operating profit from petroleum production	3,131,000	2,935,000
Operating profit from mining production	3,821,000	2,556,000
Investment income	2,594,000	697,000
Ordinary earnings — historical	4,844,000	2,962,000
— per share	71¢	43¢
Ordinary earnings — equity accounting	4,109,000	1,866,000
— per share	60¢	27¢

EARNINGS

Net ordinary earnings were at a record level, both under historical accounting practice and under the *equity accounting* method now required by the Canadian Institute of Chartered Accountants.

On a basis comparable with that of previous years, earnings before extraordinary items were \$4,844,000 or 71¢ per share, compared with 43¢ per share last year. Extraordinary items would have reduced this by \$116,000 to \$4,728,000 or 69¢ per share.

The purpose of equity accounting is to show a parent company's share of the earnings or losses in affiliated companies which are effectively controlled but are not consolidated subsidiaries. In practice, this generally includes companies in which 20% - 49% of the issued shares are held. In Teck's case, its principal affiliates are exploration and development companies which have not yet established income-producing operations. Such companies generally operate out of capital and report a book loss.

The effect of equity accounting Afton Mines, Brameda Resources, Highmont Mining Corporation, Iso Mines, Torwest Resources and miscellaneous minor holdings is to reduce Teck's ordinary earnings by \$735,000 to \$4,109,000 or 60¢ per share. The majority of this, \$533,000, occurs as an additional provision for deferred taxes. Net earnings after both equity accounting and extraordinary items were \$3,899,000 or 57¢ per share.

The effect of equity accounting on the previous year's earnings was more substantial. Equity in the ordinary losses of effectively controlled companies was \$292,000 but the deferred tax provision added \$804,000, for a total of \$1,096,000. The result is to reduce ordinary 1973 earnings of \$2,962,000 or 43¢ per share on the historical basis to equity-accounted earnings of \$1,866,000 or 27¢ per share. In addition extraordinary items included a heavy write-down of investments by Brameda Resources, leaving net 1973 earnings after equity accounting and extraordinary items at \$879,000 or 13¢ per share.

CASH FLOW

Cash flow before non-cash write-offs was \$6,278,000 or 92¢ per share, compared with \$3,731,000 or 55¢ per share in 1973. This includes cash earnings from operations and investments, less exploration, taxes, royalties, interest and administrative costs.

TAXES

Royalties and provincial mining taxes paid during the year were \$2,875,000 (up from \$718,000 last year). Income taxes provided for amounted to \$1,060,000 (\$682,000 last year). Total royalties, provincial mining taxes and income taxes charged to earnings were \$3,935,000 or 58¢ per share. The income taxes were deferred as a result of accumulated expenditures on exploration, development and new mine construction.

EXPANSION FINANCING

During the year, Teck arranged financing and began construction of two new mines: a columbium mine in Quebec and a zinc mine in Newfoundland.

The columbium project is owned by Niobec Inc., a Quebec corporation, in which Teck has a 25% interest. The total estimated cost of the project is \$18,400,000 of which \$8,900,000 will be provided by Canadian banks, \$3,000,000 by a customer and \$1,500,000 through a Federal Government grant. The remainder of the cost is to be provided jointly by Teck and Soquem through the purchase of debentures of Niobec.

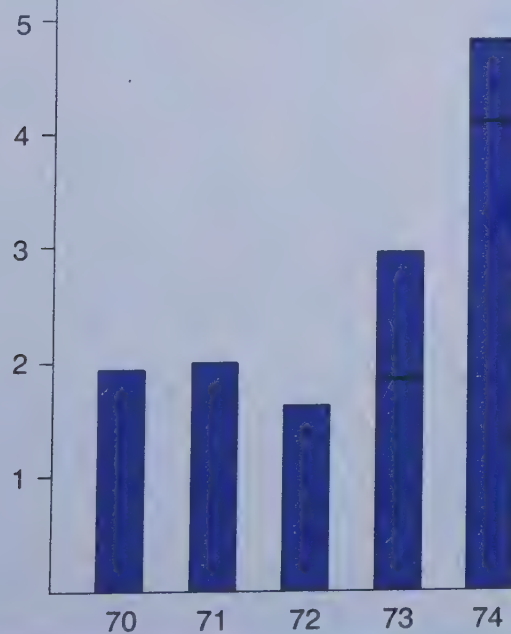
In the case of the Newfoundland Zinc project, a Canadian bank has agreed to provide \$17,000,000 of project financing on behalf of the sponsors, Teck Corporation and Amax Zinc (Newfoundland) Limited. Teck and Amax are responsible for completion of the construction programme in proportion to their equity in the venture, 63% and 37% respectively. The estimated cost to completion is \$18,000,000.

FINANCIAL



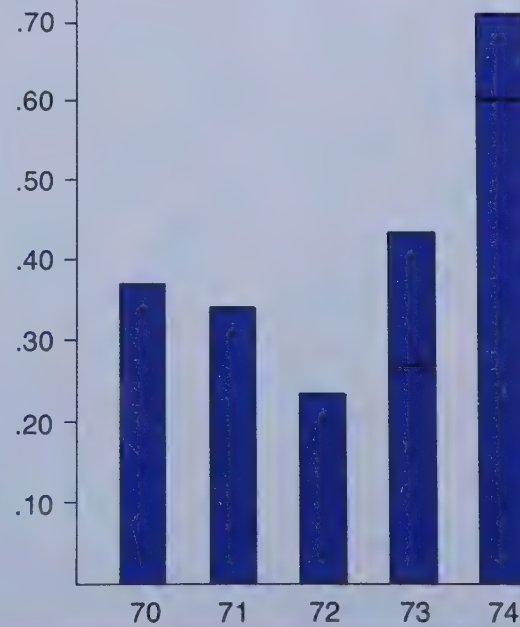
Net earnings before extraordinary items and equity accounting. The line shows the effect of equity accounting in 1973 and 1974.

millions
of
dollars



Net earnings per share before extraordinary items and equity accounting. The line shows the effect of equity accounting in 1973 and 1974.

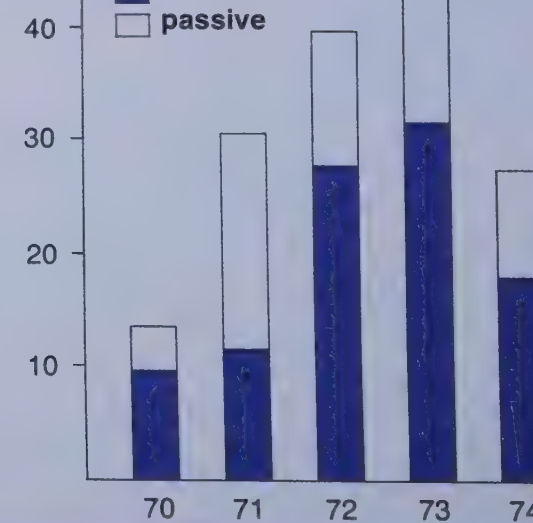
dollars
per
share



Market value of investments. There were no significant changes in the portfolio, but market value declined with generally weak markets at the end of 1974.

millions
of
dollars

■ active
□ passive





FINANCIAL POSITION

Working capital increased from a restated \$155,000 to \$4,368,000 during the year. This includes \$13,477,000 in cash, concentrate in shipment, accounts receivable and marketable securities, less \$9,109,000 in short term bank borrowing and accounts payable. In addition, Teck held shares of affiliated companies which were not included in working capital.

A term loan of \$4,500,000 was arranged during the year and in addition \$1,500,000 of interim financing was obtained which will be replaced by long term financing for the Newfoundland Zinc project upon completion of the formal loan agreements.

Significant expenditures during the year included \$1,904,000 in exploration, development and construction at Newfoundland Zinc; \$1,750,000 to purchase a 25% interest in Niobec Inc., and a further \$946,000 to begin construction of its columbium mine; and \$1,038,000 to purchase a 75% interest in Geophysical Engineering Ltd.

INVESTMENTS

Teck has a substantial investment portfolio consisting of shares and debentures in other companies in the Canadian natural resources industry. The market value of this portfolio on September 30, 1974, taking secured debentures at par value, was \$27,449,000 or \$4.03 per share, compared with \$43,795,000 or \$6.42 per share the previous year. The reduction represents weaker stock market prices, the content of the portfolio not having changed materially during the year.

The investments include shares in Madeleine Mines Ltd. and Mattagami Lake Mines Limited, both important base metal producers in which Teck was a founding member, as well as shares in a number of affiliated project development and exploration companies. A summary of the more important holdings follows. Of these, only Mattagami is treated as a marketable security in the balance sheet, with the remainder appearing as investments in affiliated companies. Afton, Brameda, Highmont, Iso, Torwest and Pickle Crow are equity accounted this year, while Newfoundland Zinc and Cariboo-Bell are consolidated as subsidiaries.

MADELEINE MINES

Teck held 1,151,176 shares (25%) of Madeleine Mines with a market value of \$4,144,000 on September 30, 1974.

Madeleine operates a 2,400 ton per day copper mine near St. Anne des Monts in the Gaspé region in Quebec. Area Mines, then an affiliated exploration company and later merged with Teck, was co-discoverer of the Madeleine deposit in 1967. McIntyre Porcupine Mines Ltd. provided the senior financing to bring the mine into production, and this debt was retired in 1973.

Teck earned \$1,381,400 in dividends from Madeleine in fiscal 1974.

MATTAGAMI LAKE MINES

Teck held 665,200 shares (5%) of Mattagami with a market value of \$9,313,000 on September 30, 1974.

Teck participated in the exploration syndicate which discovered the original Mattagami deposit in northwestern Quebec in 1957. This is now operating as a 3,900 tons per day base metal producer. Mattagami also has a 60% equity in the Mattabi base metal mine, a 3,000 tons per day producer in western Ontario, and has an interest in several other orebodies in the vicinity.

Canadian Electrolytic Zinc Ltd., a Mattagami subsidiary, operates a 145,000 tons per year electrolytic zinc refining plant and related fertilizer facilities near Montreal. This is being expanded to a capacity of 220,000 tons per year and, upon completion in 1975, Mattagami's equity will be 52%.

Teck earned \$715,100 in dividends from Mattagami in 1974.

AFTON MINES

Teck held 870,300 shares (33%) of Afton Mines Ltd. with a market value of \$3,351,000 on September 30, 1974. An affiliate, Iso Mines Ltd., held 468,703 shares (18%). After the fiscal year end, the two companies increased their holdings to 1,606,848 and 865,306 shares or 43% and 23% respectively, under the terms of an exploration contract.

Afton is an exploration company whose main interest is in a British Columbia copper project, described on page 7. Teck is providing management including engineering, marketing and financing assistance, and has indicated its intention to bring the deposit into production as a 7,000 tons per day copper mine as soon as reasonably and economically feasible. One of the factors requiring further clarification is the impact of Federal and Provincial taxes on the project.

FINANCIAL



BRAMEDA RESOURCES

Teck held 4,624,368 shares (47%) of Brameda with a value at market prices on September 30, 1974 of \$2,127,000. The company also held \$2,300,000 in Brameda debentures.

Brameda is a western Canadian exploration company whose principal interests are in the Sukunka coking coal and Casino copper, molybdenum projects, described on page 8. Brameda also has a 50% interest, through Consolidated Churchill Copper Corporation, in a 500 tons per day copper mine in northern British Columbia. With improved copper prices, arrangements were made with a third party to re-open this mine after a two year closure in January 1974 but, with copper prices again having fallen and with the impact of recent royalty legislation, the prospect of any significant return from this operation is remote.

COPPERFIELDS

Teck held 1,743,400 shares (28%) of Copperfields Mining Corporation with a market value of \$1,743,000 on September 30, 1974. Copperfields operated the Temagami copper mine in northern Ontario for 17 years before its ore reserves were exhausted in 1971. The company discovered the Magusi base metal deposit in north-western Quebec in 1972, jointly with Iso Mines. This was sold to Noranda Mines after the year end. Copperfields' principal interests are 2,042,545 shares (30%) of Teck Corporation and a 25% equity in Niobec Inc., whose columbium deposit (page 7) is now being prepared for production.

HIGHMONT

Teck held 875,000 shares (22%) of Highmont Mining

Corporation with a market value of \$788,000 on September 30, 1974.

Highmont owns 55% of a copper, molybdenum deposit in the Highland Valley district of British Columbia, with the remaining 45% being held directly by Teck Corporation. This is a large, low grade deposit upon which technical feasibility studies for a 25,000 ton per day operation have been completed, but present economic conditions are such that a production commitment is not anticipated in the near term.

ISO MINES

Teck held 1,825,028 shares (49.8%) of Iso Mines Limited with a market value of \$1,588,000 on September 30, 1974.

Iso is an exploration and development company whose principal interest is its investment in Afton Mines Ltd. This consisted of 468,703 shares (18%) on September 30 and has since been increased to 865,306 shares, or 23% of Afton. Since the fiscal year end, Iso disposed of 330,000 shares of Mattagami Lake Mines and its 50% equity in the Magusi properties for \$5,732,500, with the proceeds being applied to reduce its bank loan.

NEWFOUNDLAND ZINC

Teck holds 63% of the issued shares of Newfoundland Zinc Mines Ltd., with the remainder held by Amax Inc. There is no quoted market for this investment.

Newfoundland Zinc is an exploration company with extensive landholdings in northwestern Newfoundland. A 1500 tons per day zinc mine on a portion of these holdings is now being prepared for production (page 6) by Teck and Amax, which will hold 48% and 27% interest in the project directly. The remaining 25% will be retained by Newfoundland Zinc as a carried interest.

SILVER STANDARD

Teck held 1,306,666 shares or 19% of Silver Standard Mines Ltd. with a market value of \$1,176,000 on September 30, 1974.

Silver Standard is an exploration company active in western Canada and the United States. Its most important properties include the Minto copper deposit (page 8) Schaft Creek copper, molybdenum deposit, a large tonnage-low grade project in northern British Columbia. It also has an interest in a new gold prospect being explored in Nevada. Teck has been sponsoring exploration by the company and has options to increase its equity through further exploration on Silver Standard properties and the purchase of treasury shares.

TECK CORPORATION LIMITED

Consolidated Balance Sheet as at September 30, 1974

Assets	1974 \$	1973 \$ restated (note 1)
Current Assets		
Cash	227,000	97,000
Concentrates and bullion at estimated net realizable value	2,293,000	2,027,000
Accounts receivable	1,835,000	1,204,000
Mortgage, debenture and loans receivable from an effectively controlled company	2,173,000	
Marketable securities — at cost (quoted market value 1974 — \$9,390,000; 1973 — \$12,407,000) (notes 4 and 9)	6,100,000	6,653,000
Supplies — at cost	679,000	440,000
Deposits and prepaid expenses	170,000	135,000
	<u>13,477,000</u>	<u>10,556,000</u>
Investments in and Advances to Effectively Controlled Companies (notes 2 and 4)	24,251,000	25,563,000
Investments in and Advances to Related and Other Companies (notes 3 and 4)	<u>8,845,000</u>	<u>6,052,000</u>
Property, Plant and Equipment		
Producing petroleum properties including well development expenditures — at cost, less accumulated depletion (1974 — \$5,398,000; 1973 — \$5,123,000)	2,330,000	2,435,000
Non-producing petroleum properties — at cost, less amortization (1974 — \$700,000; 1973 — \$482,000)	2,065,000	1,653,000
Mineral properties, rights and deferred costs — at cost less amortization	5,916,000	4,521,000
Plant and equipment — at cost, less accumulated depreciation (1974 — \$8,695,000; 1973 — \$7,731,000) (note 10)	3,716,000	1,805,000
	<u>14,027,000</u>	<u>10,414,000</u>
	<u>60,600,000</u>	<u>52,585,000</u>

Liabilities

	1974	1973
	\$	\$
Current Liabilities		restated (note 1)
Bank loans (notes 2, 3 and 4)	5,522,000	8,280,000
Accounts payable and accrued expenses	3,211,000	1,820,000
Income and other taxes	376,000	301,000
	<u>9,109,000</u>	<u>10,401,000</u>
Term Bank Loans (notes 2, 3 and 4)	6,000,000	2,272,000
Long-Term Debt (note 5)	2,961,000	2,500,000
Deferred Income Taxes	4,500,000	3,440,000
Minority Interest	1,646,000	1,487,000
	<u>24,216,000</u>	<u>20,100,000</u>

Shareholders' Equity**Capital Stock** (note 6)

Authorized —

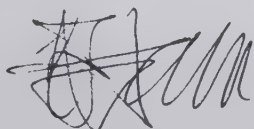
7,500,000 Class "A" shares without nominal or par value

17,500,000 Class "B" shares without nominal or par value

Issued and fully paid —

4,903,620 Class "A" shares 14,021,000 | 14,021,000 |1,913,639 Class "B" shares 11,136,000 | 11,136,000 |6,817,259 25,157,000 | 25,157,000 |**Retained Earnings** 11,227,000 | 7,328,000 |36,384,000 32,485,000 |Signed on behalf of the Board 60,600,000 | 52,585,000 |

Director



Director

Consolidated Statement of
Earnings for the Year ended
September 30, 1974

	1974 \$	1973 \$ restated (note 1)
Revenue from petroleum operations	4,259,000	4,030,000
Revenue from mining operations	12,783,000	9,694,000
	<u>17,042,000</u>	<u>13,724,000</u>
Gross operating profit		
— petroleum operations	3,131,000	2,935,000
— mining operations	3,821,000	2,556,000
Investment and other income	2,594,000	697,000
Technical services	215,000	
	<u>9,761,000</u>	<u>6,188,000</u>
Less: Administrative and general expenses	1,080,000	738,000
Interest expense — long-term	306,000	195,000
— other	764,000	529,000
Petroleum and mining exploration	1,333,000	995,000
	<u>3,483,000</u>	<u>2,457,000</u>
Operating profit before the following	6,278,000	3,731,000
Depletion, depreciation and amortization	868,000	709,000
Petroleum and mineral properties written off	29,000	182,000
Minority interest	10,000	
	<u>907,000</u>	<u>891,000</u>
	5,371,000	2,840,000
Deferred income taxes (recovered) (note 7)	527,000	(122,000)
Net earnings for the year, before equity accounting and extraordinary items	4,844,000	2,962,000
Equity accounting before extraordinary items		
Equity in losses of effectively controlled companies (note 2)	202,000	292,000
Deferred income taxes resulting from equity accounting (note 7)	533,000	804,000
	<u>735,000</u>	<u>1,096,000</u>
Net earnings for the year, after equity accounting and before extraordinary items	4,109,000	1,866,000
Extraordinary items		
Recovery of income taxes		12,000
Net settlement from damage and other claims		787,000
Gain on disposal of marketable securities	161,000	21,000
Gain (loss) on disposal of investments	(180,000)	40,000
Gain on disposal of fixed assets	5,000	143,000
Write-down of investments	(80,000)	
Equity in extraordinary losses of effectively controlled companies (note 2)	(94,000)	(1,927,000)
Relocation costs	(22,000)	(63,000)
	<u>(210,000)</u>	<u>(987,000)</u>
Net earnings for the year	3,899,000	879,000
Earnings per share (note 6(b))		
Before equity accounting and extraordinary items	<u>71¢</u>	<u>43¢</u>
Before extraordinary items	<u>60¢</u>	<u>27¢</u>
After extraordinary items	<u>57¢</u>	<u>13¢</u>

Consolidated Statement of Changes
in Financial Position for the Year
ended September 30, 1974

	1974 \$	1973 \$ restated (note 1)
Source of Funds		
Earnings after equity accounting and before extraordinary items	4,109,000	1,866,000
Add items not affecting working capital:		
Depreciation, depletion and amortization	868,000	709,000
Petroleum and mineral properties written off	29,000	182,000
Minority interest	10,000	
Equity in losses of effectively controlled companies	202,000	292,000
Deferred income taxes	1,060,000	682,000
Total from operations before extraordinary items	6,278,000	3,731,000
Extraordinary items affecting working capital:		
Gain on sale of marketable securities	161,000	21,000
Proceeds on sale of investments	14,000	620,000
Proceeds on disposal of property, plant and equipment	13,000	179,000
Net settlement of damage and other claims		787,000
Recovery of income taxes		12,000
	6,466,000	5,350,000
Mortgage, debenture and loans recoverable from effectively controlled company	1,411,000	
Term bank loans	6,000,000	
Long-term debt	8,000	
Mineral properties, rights and deferred costs	1,750,000	
	15,635,000	5,350,000
Use of Funds		
Acquisition of Geophysical Engineering Limited		
Fixed assets, rights and investment	1,388,000	
Long-term debt	(453,000)	
Minority interest in net assets	(148,000)	
Net use of working capital on acquisition	787,000	
Mineral properties, rights and deferred costs	1,940,000	
Producing petroleum properties	181,000	51,000
Non-producing petroleum properties	649,000	335,000
Plant and equipment	2,112,000	194,000
Investments in and advances to effectively controlled companies	435,000	4,523,000
Investments in and advances to related and other companies	3,024,000	1,310,000
Term bank loans	2,272,000	386,000
Relocation costs	22,000	63,000
	11,422,000	6,862,000
Increase (Decrease) in Working Capital	4,213,000	(1,512,000)
Working Capital — Beginning of Year	155,000	1,667,000
Working Capital — End of Year	4,368,000	155,000

TECK CORPORATION LIMITED

Consolidated Statement of Retained Earnings for the Year ended September 30, 1974

	1974 \$	1973 \$ restated (note 1)
Balance — Beginning of Year		
As previously reported	12,131,000	8,052,000
Adjustment of prior year's earnings arising on adoption of equity accounting		
— share of losses of effectively controlled companies (note 2)	(2,955,000)	(736,000)
— deferred income taxes (note 7)	(1,848,000)	(1,044,000)
Adjustment of prior year's earnings for costs subsequently capitalized as investments		177,000
As restated	7,328,000	6,449,000
Net earnings for the year	3,899,000	879,000
Balance — End of Year	<u>11,227,000</u>	<u>7,328,000</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Teck Corporation Limited and its subsidiaries as at September 30, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in their financial positions for the year then

ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity method of accounting for investments in effectively controlled companies as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year and, in our opinion, due provision has been made for minority interests.

Vancouver, B.C.
November 22, 1974

Coopers & Lybrand
CHARTERED ACCOUNTANTS

TECK CORPORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1974

1. SIGNIFICANT ACCOUNTING POLICIES

Equity accounting

The company, as required by the Canadian Institute of Chartered Accountants, has at September 30, 1974, retroactively adopted the equity method of accounting for its investments in associated companies in which it has effective control. Accordingly, the comparative figures have been restated. Under this method, the company records its share of the earnings or losses of these companies. The excess of the cost of these investments over the related underlying equity in the net assets of the investee companies will be written off over the estimated life of those assets.

Principles of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiary companies which are:

Lamaque Mining Company Limited, Geophysical Engineering Limited, Newfoundland Zinc Mines Limited, Cariboo-Bell Copper Mines Ltd., Pine Bell Mines Limited, Teck Resources (U.S.), Inc., Teck Resources (U.K.) Limited, Teck Corporation (B.C.) Limited, Burnaby Iron Mines Limited, Bartec Mining Company Limited, Beacon Mining Company Limited, Vil-
lemaque Gold Mines Limited, Dighem Limited.

The accounts of the company's foreign subsidiaries have been converted into Canadian funds for consolidation with the company's accounts. Current assets and liabilities have been converted at year-end rates, other assets (and related depreciation, depletion and amortization) at the rates prevailing at the date of acquisition. Amounts (other than depreciation, depletion and amortization) appearing in the consolidated statement of earnings have been converted at the average exchange rates for the year.

On May 13, 1974, the company acquired 75% of the issued share capital of Geophysical Engineering Limited, a company providing technical services to the resource industry, for \$1,038,000 cash. The remaining 25% of the outstanding shares were acquired by Copperfields Mining Corporation. The acquisition has been accounted for using the purchase method. The company's consolidated statement of earnings includes the results of operations of Geophysical Engineering Limited and its consolidated subsidiary for the period from the date of acquisition to September 30, 1974. The assets acquired as a result of this share purchase had a value of \$2,504,000 and the liabilities amounted to \$1,318,000. The minority interest in the shareholders' equity amounted to \$148,000.

Property, plant and equipment

(a) Petroleum properties, plant and equipment

The practice of the company is to capitalize lease acquisition costs and drilling and development expenditures of producing wells. Depletion of such costs and depreciation of related production equipment are provided on a unit of production method based on estimated recoverable reserves of oil. Amortization of non-producing petroleum properties is a provision for future write-offs accrued at a rate of 8% per annum. Carrying charges on non-producing petroleum properties and petroleum exploration costs are charged against current earnings as incurred.

(b) Mineral properties, rights, deferred costs, plant and equipment

Mineral properties and rights are carried at cost to date, less amortization and do not necessarily represent present or future values. Mineral exploration costs are charged to earnings in the year in which they are incurred, except where these costs relate to indicated economically recoverable reserves, in which case they are deferred and will be amortized over the life of the orebody or written off if the project is abandoned.

Plant and equipment are depreciated on a basis relating to production and ore reserves.

Definition of funds

The company considers working capital to be an appropriate definition of the word "funds" as used in the consolidated statement of changes in financial position.

2. INVESTMENTS IN AND ADVANCES TO EFFECTIVELY CONTROLLED COMPANIES

In prior years, investments in companies other than subsidiaries were accounted for on the cost basis. Commencing September 30, 1974, the company retroactively adopted the equity method of accounting for investments in companies in which it owns from 20% to 50% and of which it deems itself to have effective control. Under this method the company records in earnings its share of the earnings or losses (rather than dividends received) of effectively controlled companies. This change has resulted in decreased net earnings of \$829,000 in 1974 and \$3,023,000 in 1973. These decreases include the company's share of equity in extraordinary losses of \$94,000 — 1974 and \$1,927,000 — 1973. In addition, the retained earnings at September 30, 1972 previously reported as \$8,229,000 has been decreased retroactively by \$1,780,000.

Investments in and advances to these companies are as follows:

Shares	Percentage ownership	1974 \$	1973 \$
Afton Mines Ltd. (N.P.L.)	33	12,019,000	12,019,000
Brameda Resources Limited	47	14,000	145,000
Highmont Mining Corporation Ltd. (N.P.L.)	22	2,488,000	2,488,000
Iso Mines Limited	50	4,601,000	4,249,000
Pickle Crow Explorations Limited	25	145,000	151,000
Torwest Resources (1962) Ltd. (N.P.L.)	20	761,000	672,000
Carrying value on equity accounting basis		20,028,000	19,724,000
Advances and rights — at cost		4,223,000	5,839,000
		<u>24,251,000</u>	<u>25,563,000</u>

The carrying value on the equity basis exceeds the company's equity in the net assets of the investee companies by \$15,361,000 — 1974 (\$15,640,000 — 1973). This excess is included in the above totals and will be written off over the estimated life of the assets to which it relates. The company considers that its shares of effectively controlled companies are not temporary investments and that the quoted market value of such shares, calculated at the same rate for both free and escrowed shares, totalling \$8,555,000 at September 30, 1974, (\$17,225,000 — 1973) does not necessarily represent their present or future value. Advances and rights are convertible to or will result in the receipt of shares of the companies subject to fulfillment of certain conditions.

Certain of the aforementioned investments are pledged as security for the bank loans and the contingent liability with respect to the bank loan to Brameda Resources Limited (note 9).

3. INVESTMENTS IN AND ADVANCES TO RELATED AND OTHER COMPANIES

Investments in and advances to related and other companies are not temporary investments and include marketable shares at a cost of \$4,604,000 — market \$7,204,000 (1973 \$4,327,000 — market \$11,497,000). The remaining balance of \$4,241,000 (1973 — \$1,725,000) consists of non-marketable shares, advances and debentures. These amounts represent costs to date and do not necessarily represent their present or future values.

Certain of the aforementioned marketable shares have been pledged as security for the bank loans.

4. TERM BANK LOANS

Bank loans are secured by marketable securities and investments (notes 2 and 3).

Term bank loans of \$4,500,000 bear interest at the lending bank's prime rate plus 1¼% and are repayable as follows:

	\$
December 31, 1975	400,000
December 31, 1976	500,000
December 31, 1977	600,000
December 31, 1978	700,000
December 31, 1979	800,000
December 31, 1980	1,500,000
	<u>4,500,000</u>

The balance of \$1,500,000 of term loans, which bears interest at the lending bank's prime rate plus $\frac{3}{4}\%$, represents interim financing which is to be replaced by long-term financing for the Newfoundland Zinc Project as described in note 10 (c).

5. LONG-TERM DEBT

Long-term debt consists of:

	1974 \$	1973 \$
Mortgage loan payable, without interest, due December 31, 1976 or upon commencement of production from the mineral properties of Highmont Mining Corporation Ltd. (N.P.L.), whichever is earlier. Payment is secured by the company's 25% interest in the Highmont mineral properties	2,500,000	2,500,000
Notes payable, 6% non-negotiable, without fixed repayment terms, plus accrued interest of \$105,000. Repayable by Dighem Limited, a subsidiary, out of net profits after taxes	461,000	
	<u>2,961,000</u>	<u>2,500,000</u>

6. CAPITAL STOCK

- The Class "A" shares carry the right to 100 votes per share and the Class "B" shares carry the right to 1 vote per share; in all other respects the Class "A" and "B" shares rank equally.
- During the year, options were granted to officers and employees on 209,000 Class "B" shares at \$2.60 per share and all options previously issued and still outstanding were cancelled. The options are exercisable in varying annual amounts to October 1, 1979. The company has reserved an additional 6,000 shares for future options yet to be granted.

The dilutive effect of these stock options has no significant effect on the earnings per share and has therefore been ignored.

7. INCOME TAXES

The company provides for deferred income taxes on those amounts deducted for income tax purposes before they are written off in the accounts.

The adoption of equity accounting has given rise to deferred income taxes of \$533,000 in 1974, \$804,000 in 1973 and \$1,044,000 relating to 1972 and prior years. These deferred taxes arise under the equity method of accounting as the cost of certain investments in effectively controlled companies, which are deductible for income tax purposes, will be amortized in the accounts over the life of the assets to which they relate. Under the cost method of accounting followed for investments in companies not effectively controlled, certain costs are deductible for income tax purposes; these costs are not amortized and deferred taxes do not arise.

There are no current income taxes payable for 1974 since the company will utilize accumulated deferred and current exploration expenditures to eliminate income otherwise taxable. The balance of these exploration expenditures available for future years is approximately \$1,500,000.

8. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The company has twelve directors and ten officers, seven of whom are also directors.

The aggregate remuneration paid or payable by the company during the year to its directors and officers amounted to \$76,000 and \$184,000 respectively. The amount paid by a subsidiary to directors and officers of the parent company amounted to \$4,000 and \$18,000 respectively.

Remuneration to the directors and senior officers (as defined by the Ontario and British Columbia Securities Acts) amounted to \$323,000.

9. CONTINGENT LIABILITIES

- The company is contingently liable in the amount of \$136,000 with respect to guarantee notes issued by a bank in connection with the company's share of oil exploration commitments.
- At September 30, 1974, the company is contingently liable in the amount of \$2,321,000 as guarantor of a bank loan to Brameda Resources Limited. Certain securities have been pledged with respect to this guarantee (note 2).

10. COMMITMENTS

- Royalty

The company's producing mining property operated as the Silverfields Division at Cobalt, Ontario, is held under a lease expiring on July 4, 1982, the terms of which provide for a 10% royalty with a minimum annual payment of \$5,000.

- Niobec, Inc.

The company has a 25% interest in Niobec, Inc., a company currently placing a columbium property into production in Quebec. The company sold its share of the columbium property to Niobec, Inc. in return for an 8% subordinate debenture of that company in the amount of \$1,750,000. Financing agreements based on an estimated capital cost of \$18,400,000 provide that the company and another shareholder will each provide \$2,500,000 with the balance of the financing, amounting to \$13,400,000, provided by outside parties. The company is liable, together with another shareholder, to provide any additional funds necessary to complete the project. To September 30, 1974, the company has advanced \$946,000 towards its \$2,500,000 commitment for which it will receive 8% subordinate debentures.

- Newfoundland Zinc Project

Under a proposed project agreement between the company, Amax Zinc (Newfoundland) Limited and Newfoundland Zinc Mines Limited, the company and Amax will be undertaking to bring the Newfoundland Zinc property to production. The company and Amax are now constructing the mine and plant facilities at an estimated cost of \$18,000,000 and such assets will be owned 63% by the company and 37% by Amax. For these expenditures the company and Amax will earn respective interests of 47% and 28% in the Newfoundland Zinc mineral property and Newfoundland Zinc will retain a 25% interest. Mineral ores extracted from the property, related operating costs and working capital will be shared in the same ratio as the property holdings. To September 30, 1974, expenditures by the company on the project have amounted to \$1,805,000 and are included with plant and equipment on the company's balance sheet.

Under a proposed financing agreement with a Canadian bank, the company will borrow \$10,700,000 to finance its 63% share of the project. The loan will be secured by the company's share of the Newfoundland Zinc project assets. The company and Amax will be severally liable to provide any additional funds necessary to complete the project.

COMPARATIVE FIGURES ('000)

	Years Ended September 30,				
	1974	1973	1972	1971	1970
		(restated)			
Operating profit from petroleum operations	\$ 3,131	\$ 2,935	\$ 2,666	\$ 3,606	\$ 3,805
Operating profit from mining operations	3,821	2,556	1,492	433	665
Investment income	2,594	697	829	803	509
Technical services	215	—	—	—	—
Churchill Copper payment	—	—	5	155	64
	<u>9,761</u>	<u>6,188</u>	<u>4,992</u>	<u>4,997</u>	<u>5,043</u>
Less: Administrative and general expenses	1,080	738	640	637	455
Interest expense	<u>1,070</u>	<u>724</u>	<u>608</u>	<u>408</u>	<u>235</u>
	<u>2,150</u>	<u>1,462</u>	<u>1,248</u>	<u>1,045</u>	<u>690</u>
Operating profit before exploration and write-offs	7,611	4,726	3,744	3,952	4,353
Petroleum and mining exploration	<u>1,333</u>	<u>995</u>	<u>1,387</u>	<u>1,063</u>	<u>1,097</u>
	<u>6,278</u>	<u>3,731</u>	<u>2,357</u>	<u>2,889</u>	<u>3,256</u>
Depletion, depreciation and amortization	868	709	745	1,066	1,267
Petroleum and mineral properties written off	29	182	168	—	54
Minority interest	<u>10</u>	<u>—</u>	<u>—</u>	<u>26</u>	<u>56</u>
	<u>907</u>	<u>891</u>	<u>913</u>	<u>1,092</u>	<u>1,377</u>
	<u>5,371</u>	<u>2,840</u>	<u>1,444</u>	<u>1,797</u>	<u>1,879</u>
Income taxes					
Current	—	—	—	—	89
Deferred	<u>527</u>	<u>(122)</u>	<u>(159)</u>	<u>(201)</u>	<u>(146)</u>
	<u>527</u>	<u>(122)</u>	<u>(159)</u>	<u>(201)</u>	<u>(57)</u>
Net earnings for the year before equity accounting and extraordinary items	<u>4,844</u>	<u>2,962</u>	<u>1,603</u>	<u>1,998</u>	<u>1,936</u>
Equity in losses of effectively controlled companies	202	292	—	—	—
Deferred income taxes resulting from equity accounting	<u>533</u>	<u>804</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>735</u>	<u>1,096</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net earnings for the year before extraordinary items	<u>4,109</u>	<u>1,866</u>	<u>1,603</u>	<u>1,998</u>	<u>1,936</u>
Extraordinary items					
Net settlement from damage and other claims	—	787	—	—	—
Write-down of investments and advances	(80)	—	(1,316)	(767)	—
Recovery of income taxes	—	12	—	—	82
Gain on sale of marketable securities	161	21	3,562	827	465
Gain on disposal of fixed assets	5	143	353	132	—
Gain (loss) on disposal of investments	(180)	40	17	1,126	—
Relocation and reorganization	(22)	(63)	(21)	(92)	—
Equity in extraordinary losses of effectively controlled companies	<u>(94)</u>	<u>(1,927)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>(210)</u>	<u>(987)</u>	<u>2,595</u>	<u>1,226</u>	<u>547</u>
Net earnings for the year	<u>3,899</u>	<u>879</u>	<u>4,198</u>	<u>3,224</u>	<u>2,483</u>
Earnings per share					
Before equity accounting and extraordinary items	71¢	43¢	23¢	33¢	37¢
Before extraordinary items	60¢	27¢	23¢	33¢	37¢
After extraordinary items	57¢	13¢	62¢	53¢	47¢

NOTE: During 1974 the company adopted the equity method of accounting for its interest in affiliated companies in which it has effective control and restated its 1973 figures to conform to this policy. The 1970 to 1972 figures were recorded on an historical cost basis.



